

Message Text

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PAGE 01 LONDON 10572 01 OF 04 051825Z
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S E C R E T SECTION 01 OF 04 LONDON 10572

LIMDIS GREENBACK

SECSTATE PASS INR/OIL

E.O. LL652: XGDS-1
TAGS: UK, EFIN
SUBJECT: CHARACTERISTICS OF SIR DOUGLAS WASS KCB,
PERMANENT SECRETARY, HM TREASURY AND KENNETH
E. COUZENS CB, SECOND PERMANENT SECRETARY,
OVERSEAS FINANCE SECTOR, HM TREASURY

REF: (A) LONDON 7398 (B) LONDON 8363 (C) LONDON 8798
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1. IN RESPONSE TO TELCON, WHAT FOLLOWS IS TREASURY REPRESENTATIVE'S PERSONAL AND HIGHLY SUBJECTIVE ASSESSMENT OF CHARACTERISTICS THAT SIR DOUGLAS WASS AND KEN COUZENS WOULD PROBABLY REFLECT AT A BARGAINING TABLE. ALSO INCLUDED IN A MORE GENERAL WAY ARE CERTAIN ELEMENTS OF UK POLICY AS WELL AS VIEWS OF THEIR SUPERIORS (I.E. HEALEY AND CALLAGHAN) THAT WOULD BE CONSTRAINING FACTORS.
2. SIR DOUGLAS WASS, 55, IS A PRIME EXAMPLE OF THE BRITISH CIVIL SERVICE MANDARIN CLASS; HE WAS GROOMED AND HAND-PICKED FOR THE JOB OF PERMANENT SECRETARY OF HM TREASURY BY HIS PREDECESSORS, INCLUDING THE THEN SECRET

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PAGE 02 LONDON 10572 01 OF 04 051825Z

PERMANENT SECRETARY DOUGLAS ALLEN AND THE THEN PERMANENT SECRETARY OF THE CIVIL SERVICE DEPARTMENT WILLIAM ARMSTRONG (WHO HAD BEEN ALLEN'S PREDECESSOR AS PERMANENT SECRETARY IN HM TREASURY). THESE TWO POSTS (PERMANENT SECRETARIES OF HM TREASURY AND CIVIL SERVICE DEPARTMENT) ALONG WITH THE POST OF SECRETARY OF THE CABINET FORM THE MOST POWERFUL TRIUMVIRATE IN

THE UK CIVIL SERVICE.

3. WASSISA SCIENTIST AND MATHEMATICIAN BY BACKGROUND RATHER THAN AN ECONOMIST. HE IS NOT AN OPEN, HAIL-FELLOW-WELL-MET BUT RATHER QUIET, RESERVED, SCHOLARLY UNEMOTIONAL AND CEREBERAL, FREQUENTLY APPLYING A MATHEMATICIAN'S COOL LOGIC TO THE PROBLEMS AT HAND.

4. WASS PREFERS TO WORK WITHIN THE KNOWN WAYS OF THE BRITISH CIVIL SERVICE SYSTEM HIERARCHY. HE IS NOT AN OBVIOUS BOAT-ROCKER. AT HEART, HE IS A PRAGMATIC SCIENTIST, DISTRUSTFUL OF QUICK SOLUTIONS, WHO SEES PROGRESS BEING MADE IN AN OFTEN DISAPPOINTINGLY SLOW SEARCH FOR TRUTH. WHEN THE PRESSURE OF EVENTS PERMITS, HE PREFERS TO THINK IN LONGER-TERM PERIODS, ONE OF HIS MAIN AIMS BEING TO ADAPT AND RESTRUCTURE THE BRITISH ECONOMY IN ORDER TO VIABLY MEET EXTERNAL COMPETITIVE PRESSURES -- OR AT LEAST SET THAT PROCESS SUCCESSFULLY IN MOTION -- DURING HIS TENURE IN THE TREASURY.

5. WASS HAS A FAIRLY HIGH DEGREE OF SELF CONFIDENCE IN HIS OWN ABILITIES. HE ALSO MUST HAVE A DEGREE OF INTERNAL TOUGHNESS IN ORDER TO STAND UP TO THE BATTERING AND BULLYING CHARACTER OF DENIS HEALEY. AT ONE POINT, WHEN IT BECAME CLEAR THAT SIR DEREK MITCHELL, THEN SECOND SECRETARY IN OVERSEAS FINANCE, WOULD BE LEAVING AND AN ADEQUATE REPLACEMENT WAS NOT AT HAND, WASS CONSIDERED TAKING ON MITCHELL'S DUTIES PERSONALLY, ADDING THEM TO HIS OWN. WASS WAS TALKED OUT OF THIS BY
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PAGE 03 LONDON 10572 01 OF 04 051825Z

THE TWO IMMEDIATE DEPUTY SECRETARIES SUBORDINATE TO MITCHELL (AND EVENTUALLY COUZENS) WHO CONSIDERED THAT GIVEN THE TRAVEL SCHEDULE, IT WAS AN UNTENABLE SOLUTION. EARLIER, IN A TREASURY REORGANIZATION, WASS INSTITUTED A COORDINATION UNIT DIRECTLY RESPONSIBLE TO HIM AND RAPIDLY EARNED A REPUTATION FOR MEDDLING IN THE PRESERVE OF OTHER SENIOR SUBORDINATES WHO CONSIDERED THEMSELVES TECHNICALLY MORE KNOWLEDGEABLE. WITHIN A YEAR AND A HALF OF ASSUMING THE POSITION OF PERMANENT SECRETARY (IN 1974), THE TOP TIER OF TREASURY ADVISERS UNDER WASS, I.E., THE THREE PERMANENT SECOND SECRETARIES AND THE ECONOMIC ADVISER HAD LEFT TREASURY AND WERE REPLACED BY MEN PRESUMABLY MORE TO WASS' LIKING, OR MORE COMPATIBLE WITH HIS ORGANIZATIONAL STYLE. WITH THE POSSIBLE EXCEPTION OF TONY RAWLINSON, (IN CHARGE OF PUBLIC EXPENDITURE) THERE ARE NO PRIMA DONNAS IN THE IMMEDIATE SECOND TIER UNDER WASS.

6. WASS, OF COURSE, IS CONSTRAINED BY INSTRUCTIONS FROM HEALEY AND THE PRIME MINISTER BOTH IN DOMESTIC AND INTERNATIONAL ECONOMIC MATTERS. HE IS MINDFUL

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PAGE 01 LONDON 10572 02 OF 04 051827Z
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TO TREASURY DEPT WASHDC
SECSTATE WASHDC 7812

S E C R E T SECTION 02 OF 04 LONDON 10572

LIMDIS GREENBACK

ALSO THAT HE DOES NOT WANT TO BE TAGGED WITH THE BLAME FOR THEIR MISTAKES. HE SEES RECENT MAJOR CONSTRAINTS ON THE UK ECONOMY TO INCLUDE: THE GENERAL STATE OF THE WORLD ECONOMY AND THE NEED TO MAINTAIN SATISFACTORY BALANCE OF PAYMENTS PERFORMANCE; RAPID INFLATION; THE BASIC INERTIA OF THE ECONOMY; AND MAINTAINING THE CONFIDENCE OF FINANCIAL MARKETS.

7. IN SUMMIT TERMS, GIVEN WHAT IS SEEN HERE AS A GOOD RELATIONSHIP BETWEEN CALLAGHAN AND PRESIDENT CARTER, WASS WOULD PROBABLY HOPE TO SEE THE UK PLAY THE ROLE OF BROKER BETWEEN OTHER EC COUNTRIES AND THE U.S. THIS BROKER'S ROLE, HOWEVER, WOULD PRESUMABLY ALSO REFLECT THE PRIME MINISTER'S STRONG ATTACHMENT TO EXCHANGE RATE STABILITY, BUT NOT AT A MEANINGFUL COST TO THE UK'S EXTERNAL POSITION. WASS IS ONE OF THOSE GENERALLY VIEWED RESPONSIBLE FOR THE PRECIPITATE AND BUNGLED DECLINE IN STERLING IN MARCH 1976. OVER TIME, HE HAS SHOWN CONCERN WITH UK EXCHANGE RATE COMPETITIVENESS IN RELATION WITH RISING UK LABOR COSTS. IN 1977 HE SHARPLY COUNTERED THOSE IN HM TREASURY WHO ARGUED FOR ALLOWING STERLING TO RISE, TO REDUCE GROWTH IN MONEY SUPPLY AND ATTEMPT TO BREAK THE INFLATIONARY CYCLE. STERLING WAS FINALLY ALLOWED TO RISE IN

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PAGE 02 LONDON 10572 02 OF 04 051827Z

OCTOBER 1977 IN ORDER TO COUNTER RISING RESERVES AND MONEY SUPPLY, BUT BY THEN SOME OF THOSE WHO EARLIER CROSSED WASS' VIEWS HAD BEEN SEVERELY BRUISED, AND ONE SENIOR ADVISOR HAD LEFT TREASURY.

8. COUZENS: KEN COUZENS BROUGHT LITTLE INTERNATIONAL EXPERIENCE TO HIS CURRENT POST. HE READILY ADMITS THAT KIT MCMAHON, EXECUTIVE DIRECTOR OF THE BANK OF ENGLAND IS MUCH MORE EXPERIENCED ON TECHNICAL MATTERS, FOR EXAMPLE, RELATING TO EXCHANGE RATES. HE FORMERLY HAD BEEN A DEPUTY SECRETARY IN CHARGE OF COUNTER-INFLATION AND PUBLIC FINANCE. HE IS HIGHLY RESPECTED AS A SKILLED DOMESTIC TECHNICIAN WHO IS EXTREMELY ABLE IN WORKING WITH HIS SUBORDINATES AND WITH SUPERIORS, AND RESPECTED BY BOTH. A PRODIGIOUS HARD WORKER WITH REPUTED STRONG STAYING POWER, OFTEN EBULLIENT AND BOUNCY, HE IS NOT THE STEREOTYPED PICTURE OF THE AUSTERE BRITISH TREASURY MANDARIN. POSSIBLY BECAUSE OF HIS OPERATIONAL RESPONSIBILITIES, HE APPEARS TO HAVE A SHORTER TIME HORIZON THAN WASS. HE CAN BE VERY FLEXIBLE AND OPEN WHEN HE FEELS IN COMMAND OF A SITUATION OR WHEN NOT UNDER INSTRUCTIONS TO BE OTHERWISE. THIS SAID, HE HAS ALSO DEMONSTRATED VERY KEEN SENSITIVITY TO INSTRUCTIONS, TO THE POINT OF REFUSING TO DISCUSS ISSUES. THIS REACTION HAS REFLECTED ADMONITIONS, PRESUMABLY FROM HEALEY AND THE PRIME MINISTER, NOT TO LEAK SUMMIT MATERIAL, ESPECIALLY WHEN THE PRIME MINISTER HIMSELF MIGHT WANT THE LIMELIGHT AND TO CLAIM THE BENEFIT.

9. COUZENS HOLDS A POST FORMERLY HELD BY SIR DEREK MITCHELL, WHO WAS VIEWED AS SUSPECT BY THE PRIME MINISTER AND HIS POLITICAL ADVISORS AT NUMBER 10. IN ANY SUMMIT DELIBERATIONS, HE WILL PROBABLY FOLLOW HIS BRIEFS CAREFULLY, BUT BEAR IN MIND THAT THESE BRIEFS IN ALL LIKELIHOOD REFLECT IN LARGE DEGREE AGREED POSITIONS OF HMTREAS-

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PAGE 03 LONDON 10572 02 OF 04 051827Z

URY AND HEALEY, AND THE BANK OF ENGLAND, WITH POSSIBLE INPUTS FROM THE CABINET OFFICE AND KIBITIZING FROM HAROLD LEVER AND THE PRIME MINISTER HIMSELF. COUZENS ADVANCED THE SUGGESTION THAT PRIOR TO THE PRIME MINISTER'S WASHINGTON TRIP IN MAY, HE SHOULD GO OVER A FEW DAYS EARLIER TO DISCUSS THE GENERAL ISSUES AND LAY THE GROUNDWORK. THE PRIME MINISTER OR HIS STAFF REPORTEDLY TOOK A DIM VIEW OF THIS SUGGESTION, THE PRIME MINISTER WISHING TO KEEP CONTROL FIRMLY IN HIS OWN HANDS.

10. BACKGROUND TO SOME OF THE ISSUES: RECALL THE PRIME MINISTER SINCERELY BELIEVES HE IS A HIGHLY EXPERIENCED INTERNATIONAL MONETARY STATESMAN WHO COULD HAVE

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PAGE 01 LONDON 10572 03 OF 04 051832Z
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SECSTATE WASHDC 7813

S E C R E T SECTION 03 OF 04 LONDON 10572

LIMDIS GREENBACK

BEEN CHOSEN MANAGING DIRECTOR OF THE INTERNATIONAL MONE-
TARY FUND HAD HE WISHED THE JOB. THE PRIME MINISTER IN
1976 PUBLICLY EXPRESSED DISTRUST OF HMTREASURY'S AND
THE BANK OF ENGLAND'S UNDERSTANDING OF FOREIGN EXCHANGE
MARKETS AND INTERNATIONAL MONETARY AFFAIRS, INCLUDING
THE RESERVE ROLE OF STERLING. (THE PRIME MINISTER'S VIEWS
MUST AT TIMES COMPLICATE THE JOB OF HMTREASURY AND THE
BANK OF ENGLAND AND LED A SENIOR OFFICIAL OF THE BANK OF
ENGLAND TO REMARK THAT WITHIN EVERY GREAT STATESMAN THERE
APPARENTLY EXISTS A MONETARY CRANK.)

11. THE REFTELS GIVE A FAIRLY CLEAR IF NOT ABSOLUTELY
PRECISE INDICATION OF UK VIEWS ON A WIDE RANGE OF SPECI-
FIC INTERNATIONAL MONETARY ISSUES. RECALL THAT HMTREAS-
URY AND THE BANK OF ENGLAND ARE SKEPTICAL THAT THE NEW
ARTICLE IV OF THE INTERNATIONAL MONETARY FUND IS A SUFFI-
CIENT BASE OR FOUNDATION FOR A NEW INTERNATIONAL MONETARY
SYSTEM. IN PUBLIC, HAROLD LEVER WHO ON SOME POINTS HAS
THE PRIME MINISTER'S EAR, IS SCATHING IN HIS CONDEMNATION
OF FLOATING RATES. ACCORDING TO SOURCES IN HMTREASURY, THE
PRIME MINISTER IS AT HEART A FIXED RATE MAN.

12. THE UK ALSO CONSIDERS THAT THE FOOTLOOSE CLOUD OF
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PAGE 02 LONDON 10572 03 OF 04 051832Z

INTERNATIONAL CAPITAL REMAINS A MAJOR THREAT AND THAT ADDITIONAL INTERNATIONAL RESOURCES AND ASSETS ARE NEED TO MEET THE PROBLEM. UK OFFICIALS DESIRE GREATER STABILITY IN FOREIGN EXCHANGE MARKETS. BOTH WITHIN HMTREASURY AND THE BANK OF ENGLAND THERE ARE MANY OFFICIALS WHO WOULD LIKE TO SEE WORKABLE TARGET ZONES ESTABLISHED THAT WOULD HELP REIMPOSE SOME ELEMENT OF GREATER STABILITY. THE DIFFICULTY -- AT LEAST EXPRESSED THUS FAR -- IS THAT THESE SAME SOURCES CONSIDER THAT ANY ARRANGEMENTS THE UK WOULD ENTER INTO SHOULD BE SUFFICIENTLY FLEXIBLE THAT THE UK WOULD NOT LOSE ITS COMPETITIVE POSITION NOR BE DRAGGED UPWARD WITH THE MARK. NOR SHOULD THE MARK BE ABLE TO AVOID THE APPRECIATION. THERE ALSO SHOULD BE SUFFICIENT PROVISION OF LONG TERM CREDIT, RESOURCE TRANSFER, OR POOLING OF RESOURCES TO ASSURE THE MARKET THAT ANY EC SCHEME THE UK MIGHT ENTER IS VIABLE AND THE WEAKER MEMBERS WOULD NOT FALL PREY TO FOREIGN EXCHANGE SPECULATION.

13. IN RECENT COMMENTS (SAY OVER THE PAST TWO MONTHS) ABOUT THE U.S., COUZENS HAS NOTED A RELATIVE DECLINE IN U.S. POWER AND BEMOANED IT. HE HAS, FOR EXAMPLE, SAID THAT THE UK DOES NOT LIKE TO SEE THE RUSSIANS GAIN IN PRESTIGE OR MILITARY ADVANTAGE OVER THE U.S. HEALEY, A FORMER DEFENSE MINISTER, SURELY ALSO HAS THIS IN MIND. AT THE SAME TIME, HE AND OTHERS IN HMTREASURY AND THE BANK OF ENGLAND UNDOUBTEDLY BELIEVE THAT THE U.S. AT TIMES HAS BEEN ABLE TO EXERCISE UNDUE INFLUENCE OVER IMF POLICY, AND ON OCCASION BEEN POLITICALLY MYOPIC TO THE SOCIAL STRAINS WHICH IMF POLICIES HAVE IMPOSED ON PARTICULAR ECONOMIES. THIS SAID, THEY PROBABLY WOULD LIKE TO SEE THE U.S. TAKE A DOSE OF IMF MEDICINE.

14. OVER A LONGER TIME FRAME -- SAY SINCE 1974 -- THEY
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PAGE 03 LONDON 10572 03 OF 04 051832Z

ALSO HAVE PROBABLY COME TO VIEW THE U.S. AS A LESS RELIABLE PARTNER IN INTERNATIONAL MONETARY AFFAIRS BECAUSE OF OUR INABILITY TO FOLLOW THROUGH ON, FOR EXAMPLE, THE OECD FINANCIAL SUPPORT FUND AND THE WITTEVEEN PROPOSAL. THEY HAVE BEEN DISTRESSED BY THE PREVIOUS AND CURRENT U.S. ADMINISTRATIONS' INABILITY TO IMPOSE A MEANINGFUL ENERGY POLICY IN THE SHORT RUN THAT WOULD HAVE A FAVOR-

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PAGE 01 LONDON 10572 04 OF 04 051827Z

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FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC

SECSTATE WASHDC 7814

S E C R E T SECTION 04 OF 04 LONDON 10572

LIMDIS GREENBACK

ABLE IMPACT ON OUR TRADE BALANCE. THEY ARE ALSO DISTURBED ABOUT THE IMPLICATIONS OF CONGRESSIONAL AND EXECUTIVE BRANCH CONCERN ABOUT HUMAN RIGHTS TO THE EXTENT THAT THIS HAS IMPACTED ACTUALLY OR POTENTIALLY ON THE INTERNATIONAL FINANCIAL INSTITUTIONS, ESPECIALLY THE IBRD AND THE IMF.

15. IT IS PROBABLE THAT THEY ARE TO SOME EXTENT EXASPERATED WITH THE CONTINUAL U.S. PLEADING OF CONGRESSIONAL PROBLEMS AS A RATIONALE FOR INABILITY TO EITHER CARRY THROUGH ON OR OTHERWISE MAKE FIRM COMMITMENTS. EVEN ON ISSUES WITH WHICH THE UK BASICALLY IS SYMPATHETIC TO U.S. CONCERNS -- THE LEVEL OF IMF-IBRD SALARIES -- THERE IS A SENSE OF IMPATIENCE WITH WHAT ARE SEEN AS PAROCHIAL U.S. ISSUES WHICH HAVE BEEN ALLOWED TO COMPLICATE THE SMOOTH FUNCTIONING OF THESE INSTITUTIONS. THE FACT THAT THE SECRETARY OF THE TREASURY ANNUALLY WRITES IN STRONG TERMS TO HIS FELLOW FINANCE MINISTERS AND CENTRAL BANK GOVERNORS COMPLAINING ABOUT THE LEVEL OF THE SALARIES MAY GRADUALLY REDUCE THE IMPACT OF THE HIGH LEVEL COMPLAINT.

16. AS NOTED, THE ABOVE VIEWS ARE SUBJECTIVE. THEY ARE DESIGNED TO GIVE OUR NEGOTIATORS A FEEL, TO BETTER EN-
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PAGE 02 LONDON 10572 04 OF 04 051827Z

ABLE THEM TO ASSESS POSSIBLE UK POSITIONS AND REMARKS.

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